



## *Report to the Auburn City Council*

Action Item  
Agenda Item No. **9**

City Manager's Approval

**To:** Honorable Mayor and City Council Members  
**From:** Andy Heath, Administrative Services Director  
**Date:** February 14, 2011  
**Subject:** Results of Annual Audit – Fiscal Year 2009-10

### *The Issue*

Shall the City Council review and consider the Comprehensive Annual Financial Report prepared by the City's external auditors as it relates to the financial condition and fiscal management of City operations?

### *Action Requested*

Receive and file the Comprehensive Annual Financial Report for the City of Auburn for Fiscal Year 2009-10.

### *Background*

Pursuant to City Council Resolution 09-65, the City retained the firm of Gallina, LLP to perform an audit and prepare financial statements for the City of Auburn as of and for the year ended June 30, 2010. The external auditor's primary responsibility is to express an opinion on the financial statements based on the audit performed. Completion of an audit and accompanying financial statements is necessary to provide Auburn's citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the money it receives.

As a means to demonstrate the City's fiscal accountability, City staff has worked closely with Gallina over the last several months to complete the City's Comprehensive Annual Financial Report (CAFR). The CAFR provides a wealth of information for those interested in a local government's finances. In addition to the typical reporting sections found in a basic presentation of the financial reports, the CAFR includes a Transmittal Letter to the City Council, a comprehensive presentation of budget-to-actual comparisons for all budgeted funds, and an informative Statistical Section. Preparation of a CAFR better enables the financing community with which the City does business to assess the City's financial viability as it relates to current and future financing needs.

### Analysis

The scope of work undertaken by the external auditors included the following:

- A report of the fair presentation of the City's financial statements in accordance with accounting principles generally accepted in the United States;
- A report on the City's internal control over financial reporting and tests of compliance with laws, regulations, contracts and grant agreement and any other matters deemed necessary and material;
- A report on the fair presentation of the financial statements in conformity with GAAP, including an opinion on the fair presentation of the supplementary schedule of federal awards "in relation to" the audited financial statements (Single Audit);
- A report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Governmental Auditing Standards;
- A report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133;
- Separate auditor's reports for the City of Auburn Urban Development Authority;
- A report on the City's compliance with Proposition 111, Article XIII B of the California State Constitution (Appropriations Limit);
- A management letter setting forth recommendations (as applicable) for improvements in the City's accounting practice.

The external auditor fieldwork was completed in September 2010, and the final reports were delivered to the City for review by staff in November and December 2010. Preparation of the final version of the CAFR also considered comments received from the Government Finance Officer's Association (GFOA) related to a review of the previous year's CAFR, which qualified for the GFOA's *Certificate of Achievement for Excellence in Financial Reporting*.

As a result of the audit conducted, the City has earned an "unqualified opinion" for its financials statements presented in the CAFR. As referenced in the Independent Auditor's Report on page 1 of the CAFR,

*"the financial statements...present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Auburn, California, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America".*

The CAFR is organized into three distinct sections:

- The Introductory Section familiarizes readers with the City of Auburn and includes a table of contents, the CAFR transmittal letter, a summary of elected officials, and the City's high-level organizational structure.
- The Financial Section includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), audited basic financial statements, notes to the basic financial statements, and supplemental information including budgetary comparison schedules and fund-level financial statements. The audited basic financial statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental, fiduciary and other funds.
- The Statistical Section contains seventeen schedules which provide information on the City's financial trends, revenue capacity, and debt capacity, along with demographic and economic information, and governmental operating information.

As a means to enhance the usefulness and understandability of the CAFR, the MD&A Section (starting on page 3) discusses the financial condition of the City in an abbreviated format, describing the results of City operations both literally and graphically.

#### Selected Financial Information – Fiscal Year 2009-10

Selected financial information is presented below. This information will be discussed during a brief presentation to the City Council on this item.

##### *General Fund*

- ✧ Total General Fund revenues and other financing sources decreased by approximately \$1.05 million from FY 2008-09 to FY 2009-10. The decrease in General Fund revenues can be primarily attributed to:
  - A 19% decrease in sales tax revenue due to the severe economic downturn experienced in the local, regional and national economies.
  - A 7% decrease in property and property-related taxes due to a prolonged housing crisis and declining assessed valuations for real property.
  - An 13% decrease in Proposition 172 Public Safety Sales Tax revenue due to the severe economic downturn and it's impact on statewide sales tax revenues; and
  - A 73% decrease in other revenue sources and transfers in (approximately \$500,000 was received in FY 2008-09 from fund closeouts, surplus property sales and the CalTrans relinquishment of Highway 49 for the Streetscape Project).

- ✧ Total General Fund expenditures and other financing uses decreased by approximately \$1.2 million from FY 2008-09 to FY 2009-10. The decrease can be primarily attributed to:
  - Continuation of budgetary costs savings measures including holding vacant unfilled positions in the Police and Administrative Services Departments; salary reductions for citywide management and fire department personnel; and reduction of departmental non-personal base budgets in response to declining General Fund revenues;
  - Increased allocations of staffing costs to special-funded capital projects appropriated in the Sewer, Transportation and Auburn Urban Development Authority funds; and
  - Staffing reductions implemented at the beginning of FY 2009-10, effectively reducing ongoing budgeted costs in the General Fund by \$624,000.
- ✧ General Fund fund balances (reserves) decreased by approximately \$566,000 during FY 2009-10. As of June 30, 2010, General Fund fund balance (reserves) total \$2.85 million and consist of the following:

Economic Contingency:	\$ 2,250,000
NCCSIF Insurance Reserve:	484,194
Undesignated Fund Balance	113,029
Imprest (Petty) Cash:	<u>250</u>
Total General Fund Reserves:	<u>\$ 2,847,473</u>

### *Citywide*

- ✧ Combined net assets of the City's Airport and Sewer Enterprise operations increased by approximately \$1.63 million during FY 2009-10.
  - Sewer Enterprise Fund net assets increased by approximately \$1.36 million, primarily due to capital improvements including the Wastewater Treatment Facility Upgrade and the Vintage Oaks Liftstation.
  - Airport Enterprise Fund net assets increased by approximately \$260,000, primarily due to the management of an operating surplus during the fiscal year.
  - As of June 30, 2010, the Sewer Fund accrual basis fund balance was \$9.59 million, while the Airport Fund accrual basis fund balance was \$130,000.
- ✧ Major capital asset additions during FY 2009-10 include the following (discussed on page 16 of CAFR):
  - Wastewater Treatment Facility Upgrade
  - Vintage Oaks Liftstation
  - Borland Avenue Intersection Improvements
  - Streetscape Phase I Construction / Streetscape Phase II Design and Review

- Jury Parking Lot Improvements
  - Purchase of in-car cameras for Auburn Police Department
  - East Hangar Project at Auburn Airport
- ✧ The Auburn Public Financing Authority successfully sold \$8.5 million in Sewer Improvement Revenue Bonds and expended more than \$3.8 million to upgrade the existing Wastewater Treatment Facility.
- ✧ The City executed new 40-year land leases at the Auburn Municipal Airport with three newly developed “hangar associations” expected to generate approximately \$22,000 annually.
- ✧ Total debt Citywide increased by approximately \$7.6 million, primarily as a result of the issuance of Sewer Revenue Bonds for the Wastewater Treatment Facility upgrade, offset by the retirement of recurring debt related to general, tax increment, and pension obligation bonds and capital leases and reduction of future costs associated with the closure of a City landfill.

#### Management Report

As a supplement to the Financial Report and Audit Opinion, and at a later date, the external auditors will provide the City with a Management Report. The Management Report provides recommendations for improvements to internal controls determined during the course of conducting on-site fieldwork and/or preparing the financial statements.

A copy of last year’s (FY 2008-09) Management Report has been included with the distribution material. During the fiscal year ending June 30, 2009, there were no current year recommendations made by the external auditors. A listing of prior year recommendations and their status is also included with this report.

#### Alternatives Available to Council; Implications of Alternatives

1. Receive and file Fiscal Year 2009-10 Comprehensive Annual Financial Report.
2. Direct staff to prepare additional supplemental and/or supporting material for City Council review.

#### Fiscal Impact

None.

Attachments – City of Auburn Comprehensive Annual Financial Report as of  
June 30, 2010

City of Auburn Management Report for the Year Ended June 30, 2009

*A copy of the Comprehensive Annual Financial Report (CAFR) is available in City  
Clerk's Office for review. The CAFR is also available online at:*

[http://www.auburn.ca.gov/services/AdminServ/Docs/10AuburnGASB34AFS-  
FINAL.pdf](http://www.auburn.ca.gov/services/AdminServ/Docs/10AuburnGASB34AFS-FINAL.pdf)